Sustainability in developing countries

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Economic Development Case Study

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Introduction

A developing economy, such as India, Brazil, and Mexico, is an economy that is characterized by a growing industrial economy, a focus on agricultural activity and a lower human development index. Other traits include a low-medium per capita income, poor infrastructure, limited access to healthcare and an absence of rule of law. With so many problems to solve, it is clear that developing countries need a sustainable strategy to face these challenges, and at the same time maintain a balance between environmental protection and economic growth.

Importance of environmental sustainability

The significance of environmental sustainability as a concept in the field of economics is often understated. As the adverse effects of humanity on the natural environment grow progressively more apparent, the interdependence between environmental sustainability and economic development is becoming ever clearer. In broad terms, this concept refers to practices that support maintainable economic growth without simultaneously compromising environmental health – meeting the needs of future generations whilst preserving the natural resources we are endowed with.

Environmental sustainability is a crucial notion in economics. Step into any Econ 101 class and you'll likely be taught the concept of externalities – a (positive or negative) consequence of economic activity on a party that is not directly involved in the transaction. Negative externalities of production (e.g., a manufacturing plant dumping waste into ecosystems) or of consumption (e.g., noise pollution caused by an abundance of cars) create costs that are often borne by society rather than the entity causing it. This, simply put, is a market failure.

An additional key concept that underpins the importance of this sustainability is intergenerational equity. To ensure the quality of life of future generations, the present generation has a moral obligation to mitigate the degradation of common pool resources (clean water, forests, fishing grounds, etc.). Insofar as scarce resources can be sustainably regenerated, the economy shall not only grow but develop in a multifaceted manner.

Nevertheless, environmental sustainability is not only vital from an ethical lens but also by traditional economic principles. There is a growing acknowledgement that the pursuance of a so-called "green economy" can present an abundance of job opportunities as well. An attempt to transition to a more carbon-neutral economy, for instance, can spur innovation, attract investments, and ultimately drive long-term economic growth. To exemplify, a growing renewable energy sector can create jobs in manufacturing, installation, and maintenance. Similarly, local communities would benefit from investment in sustainable agriculture or forestry – ultimately reducing poverty and unemployment, concomitantly encouraging economic growth.

Moreover, environmental sustainability (or the lack thereof) has implications pertaining to wealth and social inequality. Resource deterioration has a disproportionately negative effect on marginalized groups, thus exacerbating existing income and social disparities. This becomes apparent when considering that low-income communities are generally reliant on natural resources for their livelihoods to a greater extent than their medium and high-income counterparts. Such households tend to lack access to alternative technologies to obtain sustenance and as such, depletion of said resources can harm their income, opportunities for upwards mobility, and introduce health risks. Those with greater amounts of wealth can then use their resources to insulate themselves from these adversities, perpetuating a cycle of widening inequality. In addition to the evident moral issue with this, it also has an eventual negative financial implication for wealthier communities, whose taxes are spent on providing welfare for these groups that governments themselves have failed to protect.

One such country that can be utilized as a lens to explore these issues is Myanmar.

Case study: Myanmar

With its vast mines, fisheries, and forests, Myanmar has no doubt been heavily dependent on its natural resources in its pursuit of greater economic growth. However, this, along with other factors like governmental mismanagement, has eventually led to the overuse of such commodities, threatening the country's environmental sustainability. Specifically, this issue can be credited to two main faucets: deforestation and pollution.

First, with a current loss of 1.4 million hectares of forest, Myanmar's astonishingly high deforestation rates are jeopardizing the country's greenwood future. Though, of course, this expansion into the forests seems economically beneficial in terms of eventually becoming a developed country as it is in response to the rising population and agricultural demands, it is also counterintuitive as it burdens those whose livelihoods are contingent upon these same forests, meaning nearly 40% of the population (135 different ethnic tribes) will face increasing difficulties with achieving income equality and adequate living standards. On top of this rising humanitarian problem, the effects of deforestation on climate change also contribute to threatening environmental sustainability. With lower protection due to a loss of mangroves, intense rainfalls that are common to Myanmar more easily develop into vast floods, destroying life and setting back the country's progress.

Second, being known as the most polluted country in Southeast Asia, it is no surprise that Myanmar's lack of governance has allowed pollution to run rampant. Specifically, in the pursuit of greater infrastructure, factories have been set to work overtime with nearly no state restraint. Not only has this led to consistently high yearly deaths caused by air pollution (over 45,000 in 2017), but due to the recent construction into the Dawna Tenasserim habitats expediting land and water pollution, many species of wildlife unique to Myanmar like elephants could end up disappearing within a matter of years. This is important as these animals are the same ones working to maintain and encourage environmental sustainability—in fact, even an elephant's footprint allows micro-ecosystems to flourish, providing a home for tadpoles and other organisms. On a more individual scale, daily human activities have also been aggravating Myanmar's environmental sustainability issues, with littering being at the forefront. Disregarding the obvious strain that this issue places on the environment, it is also a significant threat to human life since in a time of medical vulnerability, especially in a developing country like Myanmar, this level of pollution evidently leads to the blockage of drainage systems, allowing infectious diseases to fester unnoticed.

Of course, the Myanmar government has recognized the significance of these problems and has in response made some efforts. For example, to reduce deforestation they have set up monitoring systems to prevent illegal logging and safeguard forests, and to reduce pollution they have passed laws like the 2012 Environmental Conservation Law. However, these solutions have remained mostly ineffective, likely due to a lack of enforcement as well as the enticing promise of economic growth in exchange for environmental sustainability.

Importance of economic sustainability

Maintaining economic growth is crucial for emerging countries. These economies grow quickly and keeping them growing results in long-term advancements in the nation's infrastructure, the standard of life, and overall economic prosperity. By maintaining their high growth rates, developing economies also draw foreign investment, generate job opportunities, and boost productivity. These elements ultimately aid in lowering poverty and boosting social stability, which eventually results in the development of a country.

Sustaining a high growth rate results in the creation of a virtuous, self-sustaining cycle. When it is said that the economy is growing at a high rate, it means that the output of the country is increasing at a fast pace, and there is additional demand for goods. This means that businesses can sell more goods and earn higher profits, leading to expansion and more job creation. The profitability of doing business also leads to the creation of more businesses and more investment in the economy. A country having a sustained a high rate of growth also provides confidence to foreign investors, enticing them to set up shops and manufacturing units in these developing countries, leading to further job creation.

The additional jobs being created, and the healthy profits being generated leads to an increase in the general income level in the country. This leads to the government collecting more taxes, both from businesses and citizens of the country, allowing them to spend more on important industries like infrastructure, healthcare, and education. Spending on education in specific is important, as an educated population may contribute to increased productivity, which fuels further economic growth, which leads to additional expenditures in education, lifting the entire economy through a cascading effect.

However, there are a lot of obstacles facing developing nations when it comes to being able to sustain their growth rate. While in an ideal world sustaining a high growth rate should be enough to help an economy reach its desired targets, that is not always the case. The existent income inequality means that the growth benefits only the part of the population that is already well off. There is also a lack of opportunity and infrastructure available to people in the rural areas of the country, meaning that the benefits of growth are reaped by the part of the population that is already rich.

Additionally, corruption and tricky laws are huge issues in developing countries. These issues are disadvantageous for local businesses, foreign businesses, and the government as a whole. Local businesses have to pay bribes to make sure they are not targeted by government agencies, foreign businesses find it hard to establish set up shop in the country as complying with local laws is a tedious and expensive task, and the government loses out on massive revenue as the money goes directly in the pockets of local administration in the form of bribes and concessions. This leads to lower investment levels and less expenditure on important sectors by the government, stifling growth levels. This phenomenon can be observed in developing economies like Nigeria and Venezuela, which have significant oil industries but cannot sustain a high growth level due to rampant corruption and mismanagement of resources.

There are steps the government can take to help curb these issues. Changing laws to make it easier for foreign entities to invest in the country is one step that would help stimulate and sustain growth levels. Since tax compliance is a big issue in developing nations, it also makes sense for the government to incur short-term expenditure on trying to increase compliance levels so that they can collect more revenue. Reinvesting this revenue on infrastructure and education, especially in rural areas, would also be extremely helpful and help reduce the income gap.

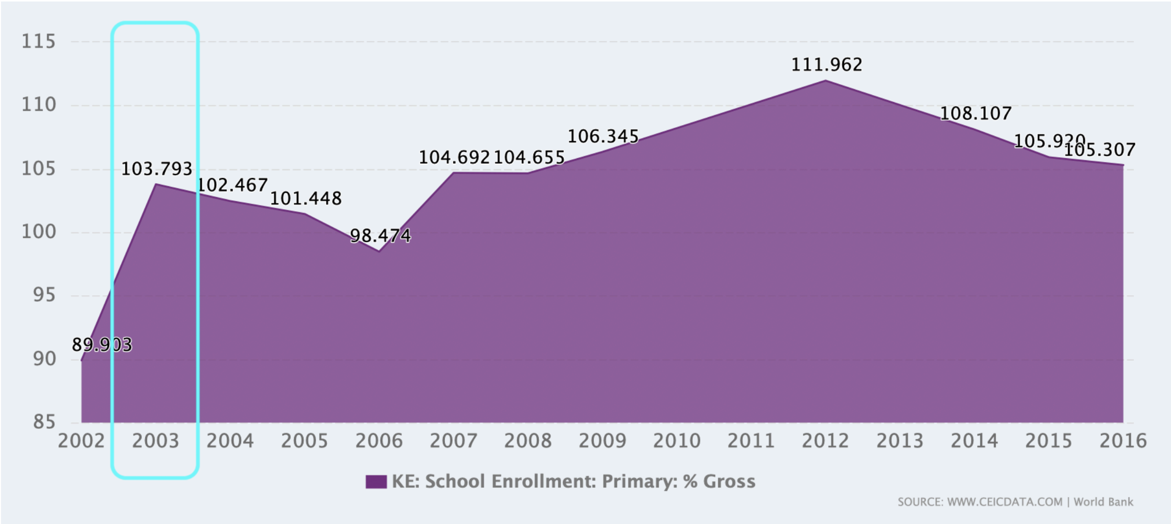
A country that has faced the issues expected when trying to sustain economic growth and implemented reforms to sustain its development is Kenya.

Case study: Kenya

Kenya, like many other developing countries, faces various challenges in achieving economic sustainability. Here we look at the issue from the education and corruption perspectives.

Education encourages upward social mobility, which allows individuals to access better job opportunities. However, in Kenya downward educational mobility is high, with Alesina et al. (2019) reporting downward mobility incidence of 26.1%. This is undesirable as it exacerbates social inequality and leads to a perpetuation of poverty and inequality across generations.

Human capital can be improved through education. Kenya has made some great progress in education, seen from the Free Primary Education (FPE) program in 2003 which waived all primary school fees. Consequently, primary school enrolment in Kenya stood at 99% in early 2020 according to UNICEF. World Bank statistics also show Kenya's successes in improving higher education through FPE and other programs, with data from 2018 showing a literacy rate of almost 82% for people older than 15.



However, though nearly all children in Kenya attend primary school, many of them drop out to supplement the family income. In 2017, the Kenya Climate Innovation Centre reported a 27% dropout rate in primary school. Even if students complete primary school, very few of them go on to any further education. Statista reports that in 2019, 10.1 million children attended primary school in Kenya, but only 3.26 million children enrolled in secondary school the same year and 509,000 Kenyan students attended college.

A potential remedy to encourage children to stay in school is the NewGlobe method wherein the primary school teachers deliver tightly scripted lessons written by a central team. This eliminates the need for qualified teachers in schools, another significant contributor to drop-out and non-completion rates. Pupil performance under this system in some Kenyan private schools has proven to be successful, so it would be beneficial to extend the practice to the rest of the country.

Kenya is also a country troubled by heavy corruption. According to UNESCO, Kenya as of 2021 held 135th rank out of 180 countries at a score of 30 / 100 for the CPI (corruption perception index), where the average score is 43 globally and 33 in Sub-Saharan Africa.

One of the most significant impacts of corruption on economic sustainability is that it discourages foreign investment. The World Bank reports the most recent value of foreign direct investment for Kenya is 463.35 in 2021, which is relatively weak considering the size of its economy and level of development, according to Lloyds Bank. When investors perceive a country as corrupt, they are hesitant to invest in it which can limit economic growth.

Connected to this is the negative impact on the reputation of a country that comes with corruption as it makes it less attractive to tourists as well. Tourism is one of the biggest industries in Kenya, which took up approximately 2% of its gross domestic product in 2019. A reduction in tourism is sure to impact the Kenyan economy heavily as the 2020 pandemic has demonstrated.

There are ways to battle corruption. Kenya must work to reduce poverty and inequality as these are often the roots of corruption, which reinforces the need for education to all citizens. For another, Kenya could improve transparency and accountability by strengthening judicial institutions. The government should also instil stringent anti-corruption laws and enforcement mechanisms with severe penalties for those guilty of corruption. The Bribery Act passed in 2016 and revised in 2021 by the Kenyan government is a step in the right direction. However, much more action needs to be taken.

Conclusion

The aforementioned key issues are ones that all developing nations need to address as improving environmental and economic sustainability can help increase production, close the income gap, reduce social disparity, and build an overall better future for generations to come. Case and point, with Myanmar, misgovernance and lack of proper laws left the population vulnerable to natural disasters and economic downturn, while in Kenya, low education availability and unrestrained corruption have hampered their potential growth. Fortunately, steps are being taken to rectify these detrimental issues in the form of new conservation and anti-corruption laws which, if proven effective, will also serve as positive examples and provide hope for other countries in similar predicaments as they work to create a brighter tomorrow.

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